

## North American Utilities &amp; IPPs

## AGA Digital Takeaways: What We Learned on Day 1

Industry Overview

## Holding the line on '21 remains the focal point

We hosted meetings on Day 1 of the online version of the AGA conference with AEE, AGR, CNP, ED, DUK, WTRG, MDU, NWE, SRE, SO, and WEC. Much of the discussion remains focused on holding the line on both costs and rate case strategy heading into '21 for most companies. We stress an implicit pivot on how costs are managed into '21 to ensure their sustainability, with several companies increasingly contemplating labor-related savings annualizing into '21 based on headcount freezes enacted (as well as forthcoming voluntary headcount reductions/early retirement options increasingly considered should Covid impacts last beyond '20 too). That said, the most critical considerations remain how to *establish a test year* based on current year (inclusive of updated load growth & updated/suppressed cost inputs) while similarly facing pressures on authorized ROEs. We suspect companies will *continue* to attempt to delay any future rate increases on customers beyond 2021, suggesting another year of cost cutting necessary to keep EPS intact. By contrast, 2022 could prove substantially more active on rate activity as '21 should provide a 'normalized' set of assumptions and the palatability of rate cases proves more intact among regulators. We could see this accentuate all the more the differences between companies benefitting from automated structures such as decoupling and formula rates, in contrast to those companies without any such mechanisms. We also see a need to remain vigilant on costs. We anticipate another wave of modestly cautious updates by 2Q and definitely by the 3Q as discussions around next year begin to frame up (cost cutting once more should feature prominently in these updates we think). While 1Q ended up proving more intact than anticipated, largely due to affirmations on outlook on '20 to cost reductions the question remains just if companies can sustain reductions & still execute on contemplated growth: increasingly tricky backdrop albeit risks to sector EPS remain quite limited to downside (1-2% order of magnitude).

## What companies stood out from our meetings?

We see AEE's strong affirmation on its outlook as quite notable, seeing sizable latitude between its recently concluded MO rate case and ongoing costs to ensure continued earning close to its authorized level. Following earlier fears permeating in the marketplace we perceive shares as substantially intact with mgmt. notably confident on its outlook despite its volumetric exposure in Missouri. In fact, we continue to see latitude to execute against its plan if not *more* on the back of its forthcoming IRP this fall. We could see a net increase in capex, bolstering doubts that seem to be emerging around shares. Related we also saw SO's confidence in ongoing pivot at Vogtle as worthwhile given pivot on employee execution. SRE appeared quite confident on its CA outlook again, but note emerging risk of capex deferrals in Mexico is likely under-appreciated among investors and could partially offset in its outlook. We maintain our Underperform on CNP as we maintain our concerns on prospects for execution at levels contemplated. We see DUK's Sept update on its IRP as likely understated & explaining its recent pos re-rating relative alongside greater confidence in cost cuts. Rate case risks loom here otherwise.

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# Thematic Prospects

## 1. Execution intact; bill arrears remain quite early

We note few incremental comments in recent days on load trends, with most of the focus increasingly focused on the ramp in bill arrears from customers. With April bills just becoming due now, preliminary data does not necessarily show the full ramp. While residential customers are typically eligible for non-disconnect and avoidance of late fees, we also note discussion among many companies of the benefits provided from the CARES act in allowing funds disbursed to small businesses to qualify towards paying utility bills (in addition to employee labor expenses, etc) such that this class of customers is likely to remain more intact than otherwise expected.

## 2. Renewable delays, but not really an issue

We stress that few investors really appreciate the potential *benefits* of forthcoming PTC guidance latitude from IRS. We could actually see this add to the net NPV of projects (seeing currently '21 contemplated projects) partially qualify for the full 100% PTC. This would appear the most constructive to NEE of companies covered.

## 3. Capex upsides still quite real

We perceive investors need to appreciate that companies could very well see capex increases altogether as they move forward with a wider array of coal plant retirements on an accelerated basis including AEE, ETR, and DUK among others. We see this all likely forthcoming in 2H despite a related backdrop & fear of capex *slippage from 2020 into future years* to limit pressure on balance sheet metrics. This remains a key potential variable as companies seek to hold the line on the outlook in '20 as virus could very well imperil guidance more than otherwise perceived/reflected in sales guidance presently with greater corresponding impacts to balance sheets than appreciated as well.

# Ameren (AEE)

## Standing by the main points from the 1Q call: quite confident

Mgmt. reiterated much of what was discussed on its earnings call last week (as discussed in our last [note](#)), including its affirmation of 2020 guidance \$3.40-3.60/sh under adjusted assumptions including the constructive Missouri (MO) rate case outcome, O&M savings, and a YoY sales decrease expectation of -2.5% (a -\$0.10 item). There's still lack of clarity around how much of an O&M swing AEE is factoring in (recall mgmt. stated on the 1Q call original guidance had a YoY increase in expenses, changed to a YoY decrease). We hope for further clarity as peers have provided a sense of how much is factored in – important in tracking impacts if stay-at home orders last a little longer than anticipated. Either way, as we previously calculate a 1% change in O&M is equivalent to roughly \$0.10/sh, we still expect AEE has room left for other O&M savings if need be to keep '20 in its guide. We maintain Buy given this, that also see growth opps, and the company's strong FFO/debt metrics that are better than those of peers.

## Capex and growth rate

AEE affirmed its 6-8% EPS CAGR from '20-'24, emphasizing its \$36bn 10-year capex plan (as well as its \$16bn 5-year plan). Mgmt. pointed out that the plan's capex is largely focused on grid modernization as well as projects that enhance reliability, resiliency, and security. AEE doesn't have big generation growth other than the \$1.2bn invested in wind, which is still expected to commission mostly this year (perhaps just \$100mn rolls into 2021 due to COVID-related supply chain delays). We see further opps for gen-related growth, but it's too soon for the company to firmly fold upside into guidance; this includes the IL downstate legislation & associated renewable and electrification of transportation proposals, as well as potential generation trajectories proposed this fall through Missouri's integrated resource plan (IRP).

## Missouri rate case settlement: When's the next one?

Mgmt. reiterated its constructive rate review outcome including having the commission affirm its 95% / 5% sharing as well as a decrease in revenues by -\$32mn, fuel cost expenses by -\$115mn, and other costs by -\$50mn. This results in a net +\$133mn pre-tax impact, with rates taking effect April 1st. We calculate the annual impact of this



result is \$0.40/sh annually, i.e. \$0.30/sh for 2020 given it impacts nine of twelve months. Note the electric result was an ROE of 9.4-9.8% as well.

Recall prior to COVID & this rate case result, AEE had indicated it was planning to file another MO rate case once its wind program came online YE 2020 to reduce lag beyond what PISA (plant in-service accounting) provides in deferring 85% of depreciation. While the company had never provided an exact sense of timing, one could have assumed that AEE might have wanted to file July 2020 for a true up by year end that would have included the wind projects. However, we note that mgmt. again expressed it was happy with the construction result of this last recent settlement. Moreover, now with COVID, AEE is still debating the timing of when to come in next to limit regulatory lag but be conscious on the backdrop. In other words, we see AEE looking to balance the recent rate case result (which we believe would support a stay-out) with wanting to bring 2020 wind investments into rate base (which we believe would support an earlier case, but with some flexibility given PISA eliminates as much loss on depreciation of rate base) and then COVID impacts (which in itself has a push-pull: We'd see reason to push out given economic impact on customers but reason to pull forward to balance impacts of lower demand and bad debt expense). Nothing is on the table yet in terms of the next filing, but AEE mentioned the Commission Staff did open a workshop to look at tools around costs from COVID.

We discussed potential alternatives to a full rate case, noting that AEE chose PISA rather than decoupling. We still wonder whether the MO commission could be amenable to a stabilization filing, like LNT is pursuing in Wisconsin (i.e. keeping rates stable by using cost costs and other accounting mechanisms to balance the increase to rate base the wind would provide). We also could see AEE look to pursue accounting authority orders (AAOs) related to COVID-specific costs in MO.

#### **Coal update: Still waiting on this fall**

AEE did not provide a glimpse into any future potential accelerated coal retirements. It noted its unique situation since it has not made as many investments in scrubbing equipment as peers have, resulting with coal representing just 12% of rate base now, expected to drop to 8% in 2024 without facing stranded costs. Plants outside of Meramec (which is set to retire in '22) are still operating at 70% capacity factors, and the state has historically appreciated the ownership aspect of generation.

While not discussed, we still see accelerated unscrubbed coal retirements as untapped potential not only as a catalyst in which to pursue more rate based renewables (which could be discussed this fall as the IRP is due), but also as a way to pursue better ESG metrics as well (see our recent ESG flows note [here](#), which suggested flows have continued strong this year, but utilities as a whole are underutilized even with some of the largest clean energy rate of changes proposed – we could see an opp'y here). We think that if not this fall, AEE could also be waiting for the result of the 8<sup>th</sup> Circuit environmental issue around Rush Island (with oral arguments likely later this year) and/or securitization legislation in MO to be pushed forward.

#### **Illinois: Downstate bill isn't off the table yet**

While impacted by 30-year Treasury rates, AEE's Illinois formula rates in the electric segment result in no regulatory lag. The company continued to discuss the Downstate legislation including extension of formula rates with the 100bps adder – in addition to plans for more renewables and electrifying the transportation sector – by specifically noting that the legislation is based on a strong foundation that has driven investment, jobs, and reliability in the past. We interpreted the company still sees palpable backing by environmental & labor group, in addition to geographically and politically diverse legislators. While investors appear quite worried about sustaining status quo; we note the program officially expires in coming years (and would otherwise seemingly result in a more traditional litigated rate case). While timing could yet get shifted out we perceive a clear bias towards an extension, likely in oru vie won more favorable ROE terms given the wide discrepancy from other 'normal' returns for companies. This backdrop makes us more constructive on shares despite the more acute recent arguments suggesting risks to their LT EPS CAGR carrying forward current EPS CAGR outlook.



# Avangrid (AGR)

## New England Clean Energy Connect (NECEC) saga continues

As we noted [here](#), AGA recently filed a lawsuit in Maine at the Superior Court level regarding the state's referendum to derail the NECEC transmission project through this November's election. The suit is based on AGR's view that (1) the referendum exceeds the power of the law as it's not a rule for all (focused on just one project) and it's retroactive, and that (2) there is a separation of powers issue that is allowing the legislative branch to exert power over the judicial and executive branches. The outcome is needed before the item would go on the ballot this November. AGR did not address impacts to capex deployment yet, noting it continues to first focus on receiving the remaining permits as well as ensuring the referendum is challenges and voters have all the information to make an educated decision. We point out that construction is now not expected to start until the end of August; the ME DEP permitted the project recently so the only two outstanding permits are the Army Corps expected in August (which is necessary to start US construction) and then the Presidential permits 60 days later (which is necessary to cross the Border into Canada). The silver lining in the delays faced by AGR is that a concurrent non-appealable order in Massachusetts (which was appealed by NextEra) won't be ruled on until this June. As such, AGR has gained flexibility on when exactly the project contractually needs to be in service; the company is still anticipating a '22 in-service date as of now, but can bleed into '23 if difficulties cause further delay (i.e. giving AGR a risk mitigating factor of more time and latitude if it is delayed more). Bottom line: AGR pulled its long-term guidance on the 1Q call and by the time we expect an update (at the Analyst Day likely in line with Iberdrola's), AGR will have referendum clarity on whether this project will go forward.

Note also in ME, AGR recently teamed up with two wind generators (EDPR and Clearway) to propose wind farms (~325MW) for the state's request for proposal (RFP) due last week. AGR would be responsible for transmission gen-ties – and the projects represent significant distances. Stay tuned here, with the RFP announcement likely this December. *These transmission interconnects would be modest upside to the plan.*

## ROEs: Company expecting largely around authorized once all said and done

AGR anticipates it will finalize its New York rate case settlement with interveners this month such that it is able to file a joint proposal with the Commission soon. As noted in our recent upgrade to Neutral from Underperform ([here](#)), AGR anticipates the final order to be approved this fall, with rates taking effect in September but being made-whole as of April 17<sup>th</sup>. We point out two key discussions in our eyes: First whether the commission will allow recovery of some bad debt expenses, and second the ability to earn at the authorized ROE. AGR noted in 2009 the commission put in place a methodology for recovery after a generic hearing. It expects something similar – we'd expect more likely a generic proceeding but if need be through the settlement. Note CT and ME already opened dockets recovered to bad debt, and AGR seemed confident some sort of recovery would be possible in NY due to past precedent.

As for earning as close to the allowed as possible, the outcome on minor storm recovery particularly with staging costs is key. NY had limitations on how many staging costs it could recovery, and would allow just 3 events at NYSEG and 2 at RGE. AGR is seeking more events and more dollars to recover. It also is looking to deploy incremental dollars for maintenance, equipment failures, and enhancing the system (due to age or quality). In other words, AGR is looking for capital, O&M, head count, and storm recovery – mostly at NYSEG. Once rates are in place, mgmt. expects to earn around the allowed ROE. This would indicate the first year of limited lag for NY Is 2021.

As for ME, the company expects to earn around the allowed ROE as well – although likely closer to having 2020 as the first full normal year. Note the company is facing 1x items in 2020 that will prohibit earning at the authorized return, and until September 2021 at



the earliest the company faces a -100bps penalty on its authorized ROE. This penalty will be lifted if AGR proves its customer standards metrics.

#### **Question of capex and resolution on bad debt unlikely in JP**

We perceive a generally cautious attitude on storm related capex & opex coming out of the NY rate case resolution. While already an ambitious plan articulated in its capex projection, we perceive a potential for modestly reducing expectations. Meanwhile resolution in the joint proposal of bad debt recovery appears increasingly unlikely in our view and would likely be joined together with other utilities including ConEd. We stress recovery appears to be dimming in a separate Covid docket in sharp contrast to many other regions nationally.

#### **Offshore wind update: Waiting on BOEM with study all focused on distance**

AGR indicated that the Bureau of Ocean Energy Management (BOEM) communicated last that it is still on target to issue its cumulative impact study this June 12th. The company expects it will be an all-encompassing finding on project density – i.e. how far apart turbines must be in the New England area. Note that the industry up to this point has largely agreed upon a one-nautical mile spacing in all directions (N/S/E/W) and that the Coast Guard has indicated it is in line with this spacing; most fishermen negotiations were reflecting of this as well. We point out that AGR is still waiting to comment officially on how Vineyard Wind will be included its updated EPS CAGR (i.e. to commission in 2023 or 2024?). Due to the delay from the original online-date of '21-'22, AGR has a silver lining of being able to explore larger turbines with more capacity, improving its density of its total offshore wind lease area (having originally looked to 9.5MW turbines, but now looking at turbines 12MW+).

#### **On track '20 and succession**

Finally, the company indicated its '20 projects are on track and that it is not seeing a COVID-related slow-down. We expect AGR is one of the more shielded companies from lower demand and other impacts due to its decoupling at Networks. We stay tuned for succession plans, likely to be announced by Jim Torgerson's departure at the end of June.



## Centerpoint Energy (CNP)

*While CNP remains a highly debated name, we remain cautious on the overall outlook and see downside to shares given both ambitious 5-7% growth targets that are difficult to achieve as best we can tell (w/ inclusion of mandatory converted shares offset by interest expense savings) with upside case principally centered around the strategic review process, which has yet to be clearly articulated. With Change of Control at a sector-record at ~\$10Mn for the chair, we believe the question remains whether this could potentially evolve further with additional incentives, a dynamic we've seen elsewhere among companies evaluating strategic actions, although still no timeline on this process. Meanwhile, there are some signs of progress on the new CEO search although still no definitive timeline. At the end of the day, we continue to see a challenged outlook and maintain our Underperform rating.*

### **Succession planning: Still no definitive timeline although making progress**

During our call, mgmt. highlighted that several candidates have been identified for a new CEO appointment, and is in the process of narrowing down the list and working to prepare arrangements. That said, mgmt. was unable to put a more specific timeline on the process. Given wider governance concerns around the structure & compensation of the board, we see this as critical to re-establishing confidence in the strategic direction of the company. While an astute CEO appointment would be the most obvious upside angle, especially if it were to come from in-state peer, we could see the process be more drawn out.

### **What about the strategic preview process? CoC critical to watch**

While mgmt. talked down the M&A angle on its earnings call, commentary from our AGA meeting suggested that the advisory board committee would look to optimize the business by assessing all assets and the business as a whole with still plans to announce something by the Analyst Day in early 2021. Given we perceive limited independence of recently appointed board member Lesar and current Chair Milton given historic relationship, we continue to see changes around Change of Control (CoC) incentives as critical to watch. Yet there was no more specificity as to when these payments will be subject to annual review or around additional details for the process itself beyond the fact that the interim CEO/CFO will be involved in the process. With CoC at a sector-record at ~\$10Mn for the chair, we believe the question remains whether this could potentially evolve further with additional incentives, a dynamic we've seen elsewhere among companies evaluating strategic actions. We note the chair has three years left prior to mandatory retirement age; we also still note the decision by CNP in past efforts around strategic actions not to pursue a sale. Bottom line, we remain less convinced about the motivations on this front, although recognize this is a key upside angle.

### **What about the dynamics in IN?**

With ~\$300mn/yr of IN electric capex that will need to be backfilled and largely dependent upon the Integrated Resource Plan (IRP) filing, mgmt. highlighted that it remains on track for its June filing with expectations to bring a more balanced portfolio mix of new generation to the table. While details of the plan have not been disclosed, mgmt. highlighted a much more engaged stakeholder process taking in factors from both the coal industry and the renewable energy in order to balance low cost needs with stakeholder objectives. Meanwhile, despite 80% of capex trued up on an annual basis, we remain concerned around COVID pressures and ability to earn authorized returns; see recent read-throughs from in-state peers AES and NI on load trends as also cautious given Commercial & Industrial (C&I) load declines in the mid-teens, and it remains unclear if resi trends of +10-11% can be sustainable.





## Consolidated Edison (ED)

*We maintain our Buy rating on ED as we continue to see the shares as largely de-risked following implementation of new rates at its CECONY (Con Ed co. of New York) subsidiary and given its decoupled electric and gas business. Nonetheless mgmt. continued to strike a sober tone on assumptions for recovery of Covid-related items including higher bad debt expense and direct expenses. Mgmt. acknowledged that the timing of a potential commission docket for Covid recovery would likely come after the state has better visibility into the length and depth of the economic downturn, particularly as it relates to unemployment. On the financing front the company reports ample liquidity following the establishment of a new \$750m credit facility. No change in plans to issue \$600m of equity in 2021 as the company continues to see annual equity needs, thus any delay would cause requirements to increase in future years.*

### **'20 guidance cut driven by Covid which is seen as a current-year drag**

Mgmt. sees the impact of Covid on financial results as seen in lower revenue from disconnect fees, late payment fees, no access charges, and related O&M items to largely be limited to 2020. Incentive programs built into rates are reset on an annual basis, with the expectation that the Covid impact from these will also be limited to 2020. Looking beyond 2020 the company sees its multi-year earnings CAGR guidance as intact given expected recovery in subsequent years as fee collections normalize. The reduced 2020 guidance range of \$4.15-4.35 was driven in part by the negative contribution from weather in the CECONY Steam business (ED's largest non-decoupled segment). Mgmt. estimates that the Q1 drag on Steam was approximately 80-20 due to weather and reduced consumption stemming from Covid stay at home orders in the end of March. Mgmt. did not give a forecast for the segment for the remainder for the year though noted that Steam is economically sensitive – it is unclear to what extent demand will continue to be reduced by remote working employees given that large office buildings in the city may continue to take steam even at reduced occupancy rates.

### **Bad debt expense largely depends on depth and duration of downturn**

ED sees its bad debt expense as largely dependent on the path of economic recovery in the NY City area, in particular the length of time that unemployment rates stay elevated and to what level unemployment rises. Mgmt. provided color into the determination of bad debt expense in a rate proceeding – the beginning point is the actual bad debt expense in a historical test year with a normalization process that takes place to account for one-time or unusual events during the test year, making the final outcome difficult to forecast. At present mgmt. is using 2008-09 as a template in the absence of more detailed data – in both instances collections for delinquent accounts were suspended, though the reduction in demand has been faster in 2020 as compared to the prior recession. Mgmt. sees a potential for a generic cost recovery docket to be opened by the NY commission, though does not expect clarity in the near term as the commission remains focused on delivery of service to customers.

### **Equity needs remain \$600m in '20, liquidity seen as adequate**

ED established a line of credit in April that will allow it to draw down up to \$750m to fund operations and capex in the near term. The company sees its current year equity needs as unchanged at \$600m though acknowledged the possibility of drawing down the credit line *prior* to an equity issuance (by mid year) if market conditions precluded an issuance by that time frame. Looking further out mgmt. sees annual equity needs “as far as the eye can see” making pushing out the current equity needs difficult as they would accumulate in the following year. Mgmt. stressed market conditions and ensuring the best possible price as the key factor in its timing decision. *Bottom line, could see this come by mid-year depending on market conditions. With this company among the single remaining marketed issues for the year to be issued we perceive disproportionate ‘overhang’ and hence concerns on shares reflected today.*



## Duke Energy (DUK)

*Despite Duke's recently announced sizeable cost cutting plan to offset expected load declines this year, we maintain our Neutral rating on shares given lingering risks in the Carolinas with 3 untested NCUC commissioners and potential for delay at ACP with NWP12 timing. With the near-term uncertainty in the Carolina rate cases given litigated ROEs, coal ash pressures and implementation timing, Duke's execution of its cost cut initiatives will be critical for the company to maintain its +4-6% EPS growth target (reaffirmed on 1Q call). On the other hand, we see potential progress with the Clean Energy report from the NC where we see pathway for alternative rate making mechanism (MYRPs, ROE banding, securitization, riders, etc.), although specifics around a particular outcome remains premature: we see our AGA meeting as a net positive driven by growing confidence around future Carolinas spend (watch large re-write on capex outlook with the IRP) as well as focus into '21 on cost cutting. Specifically its forthcoming IRP should both add to cash flow potentially with accelerated depreciation of plants – improving balance sheet while also providing a further uptick in capex this ~September.*

*Regarding ACP, we continue to perceive challenges in having all permits approved by the tree-felling window in November; in addition to potential risk that the 9<sup>th</sup> does not approve the motion to stay for the recently narrowed NWP12 order (likely hear on the stay next week). Long term, we see the upcoming NC IRP in September including a meaningful amount of incremental opportunity by way of clean energy for Duke, but risk remains around the natural gas build out due to uncertainty at ACP.*

### **ACP needs 4 items resolved this yr to remain on schedule; NWP12 in focus**

With 47% interest in the \$8bn Atlantic Coast Pipeline (ACP), the project continues to be an overhang on DUK shares as there are several items that need to be resolved this year to keep the expected in service timeline of early 2022 intact. Moreover, the recent Nationwide Permit 12 (NWP12) vacature order out of the US District Court of Montana, which was narrowed last week to only new oil and gas pipelines, has become an incremental obstacle for ACP and all other new pipelines across the nation. On Friday (5/15), after declining to grant an immediate stay of the MT Court's narrowed order, the 9th Circuit US Court of Appeals established an expedited briefing schedule concluding on May 22 (this Friday) to address the defendants' motions for a stay implying the 9th's critical decision on the motions to stay for NWP12 will likely come next week (May 25-29). Duke hopes this motion to stay is granted next week allowing the project schedule to remain in line with expectations. This assumes the other three items are resolved this year, which include: 1) biological opinion from the US Fish and Wildlife Service (expected by end of 2Q20) – a pre-requisite for water crossings authorized by the NWP12, 2) a favorable SCOTUS ruling on Appalachian trail crossing (expected in next few weeks), and 3) an air permit for the Buckingham, VA Compressor station (expected by YE20). FERC likely needs all these major permits in place to approve recommending construction and tree felling. Bottom line, we continue to see risk of a delay at ACP with a potential motion to stay for the narrowed vacature of NWP12 presenting incremental delay risk.

### **Upcoming IRP to be broader than DUK's typical IRPs historically**

Duke's upcoming North Carolina Integrated Resource Plan (IRP) that will be filed in September is expected to be broader than the company's usual IRP as it will contain more carbon reduction initiatives, renewables, third party providers, and distributed generation. The carbon reduction initiatives will include more thoughts on the early retirement of coal plants. We expect the commission will look to find a balance between the lowest cost plan and aligning de-carbonization efforts, which Duke likely incorporates into its IRP. The company is trying to reflect a composition of assets that is less base load, but rather more on the grid and smaller generation assets. Further we perceive the NC IRP filing could create additional opportunities for DUK in terms of clean energy and coal reduction opportunities, although see risks to natural gas build considerations given still uncertainty around ACP.



### **Securitization as a potential tool for coal retirement in the Carolinas**

For the early retirement of coal plants, we believe Duke could potentially securitize these early retirement costs such that they are not penalizing the rate payer, creating headroom. Duke has used securitization for storms in the past, and we perceive this as an attractive tool for Duke to potentially apply to coal retirements if the corresponding amendment is made to the legislation (assuming put forth in the Clean Energy study by year-end). We will continue to watch for this as another potential lever for Duke.

### **Multi-year rate plan legislation**

Duke continues to push the Public Utilities Commission (PUC) for alternative rate mechanisms to move forward, specifically, a multi-year rate plan (MYRP). With the upcoming report due from the Governor's committee on Clean Energy, there remains potential for Duke to have a recommendation back to the legislation that would include a MYRP, ROE banding, securitization, and/or rider capability. There are a wide range of tools available, but it will take time to educate the necessary parties. All of these tools would be positive for Duke, but there are a number of steps it will take to get there as past efforts stalled/failed. With that said, we see both increased confidence from the company and corresponding stakeholder commentary as supportive for DUK's legislative prospects in the 2021 long session.

### **Offsetting COVID-driven load declines with cost cuts; some sustainable cuts**

On the 1Q update, Duke announced targeted cost cut reductions of \$350-450mn to offset annualized load decline expectations of 3-5% this year. A portion of these cost savings are savings that Duke will benefit from beyond 2020 (i.e. structural) and some are not. Recall, Duke noted hiring freezes into '21 and corporate IT reductions as a tailwind for O&M agility. The new processes Duke is putting in place will drive efficiencies and yield cost savings through the incorporation of more digital, analytics and robotics throughout the organization. These new processes likely require less people going forward, which will sustainably lower the company's overall cost structure. Duke has dedicated resources working on these efficiency gains, and we expect to get more transparency on the major cost savings buckets later this year.



## Essential Utilities (WTRG)

### NT COVID Implications De-Risked, with LT Recovery Prospects Emerging

With their 1Q report earlier this month, WTRG reaffirmed 2020 guidance of \$1.53-\$1.58 and a 5-7% EPS CAGR through '22. We stress the largely residential profile of the water biz as providing some protection against load degradation while the gas biz enters shoulder season against the pandemic backdrop for now, as we monitor duration on a go-forward basis and any second waves or further escalation. While early action was taken to maintain a more conservative amount of liquidity, bad debt has been our primary concern. That said, discussions with mgmt. stressed last week's order in PA as helping to de-risk this given their particularly large presence in the state: recall, last Wednesday, the PA PUC issued a letter directing utilities to track COVID expenses and authorized regulatory assets for incremental uncollectible expenses incurred above those embedded in rates since the PUC's March 13, 2020 Emergency Order -any regulatory asset created under the authorization contained in the Secretary's Letter will be subject to review by the PUC in future proceedings. While this won't provide immediate help to cash flow, it should help limit degradation to P&L in the nearer term.

Meanwhile, we perceive the latest economic pressures broadly as likely to further accelerate consolidation in the industry as muni budgets are further flex'd from the crisis - and stress any further resulting acquisitions would be upside to mgmt's latest reaffirmed targets. States we are watching in the near term include TX & OH following the passage of FMV legislation in the states early last year and VA passing the legislation more recently. While we perceive TX bids as likely more competitive, WTRG is currently the only large water utility in the state of OH - and we see particular opportunities as likely to emerge following the Campbell acquisition. Meanwhile, we see NC as another state to watch given the new commission dynamic, albeit muni acquisitions there seem less clear cut relative to the more challenged munis in PA and IN.

Overall, mgmt. stressed confidence in our latest discussions around both volume and magnitude of muni acquisitions, and we perceive particularly bullish prospects for further consolidation for the water industry going forward.

Latest discussions also pointed to their intact balance sheet (following the Peoples acquisition despite some add'l debt to improve liquidity) with equity only needed to finance acquisitions. While continuing to allude to \$300Mn in equity for DELCORA (& some latitude for further add'l acquisitions), we see timing as either 4Q or 1Q given a likely somewhat protracted process from the COVID backdrop and the current market environment.

### Watch Repairs Tax Developments for the Catch Up Component

After closing on the Peoples Gas acquisition in Mid-March, the company elected the current component of repairs tax, reducing income tax by \$5.9Bn for the quarter with expectations to drive \$0.08-\$0.12 worth of contribution for the year. Latest discussions suggested a filing for the catch up component in June or July with the process taking six to nine months. *We see this as the critical debate driving shares.*

Under implementation for the water biz, seven years of a ten year amortization went to the shareholder while three went to the ratepayer under what we stress as a particularly constructive outcome. While it remains to be seen how the commission will rule this time around, a constructive outcome remains clear cut upside to their numbers.

We remain Neutral rated on shares of WTRG, seeing risk/reward as balanced.



## MDU Resources (Not Rated)

### Catching Up Post Cut on COVID & More

MDU Resources (MDU) is a \$4.4Bn market cap company based out of Bismark, ND that operates in 44 states. The company is a mix of regulated electric, natural gas, pipelines, and an unregulated construction materials and services business. MDU recently narrowed its 2020 EPS guidance from \$1.65 - \$1.85 to \$1.50 - \$1.70 with a 5-8% long-term CAGR while also lowering its revenue guidance for the construction business by \$100M (while pulling margin guidance) following weak 1Q weather and as they continue to navigate the COVID crisis. Despite the lower guide, the company has a record backlog of \$1.3Bn for construction services and a backlog of over \$900Mn in construction materials.

Despite the more uncertain backdrop, management remains committed to M&A primarily through bolt on acquisitions, noting potential for more distressed opportunities in particular going forward and financing will likely be determined on a case by case basis. Shy of acquisitions, the company doesn't anticipate any near term equity needs and FFO/Debt metrics remain north of S&P's upwardly revised target of 22% (from 15% previously). Bottom line, while organic growth remains the primary driver of mgmt's capital allocation on a go forward basis, mgmt. has clearly identified a desire and opportunities for further acquisitions.



# Northwestern Energy (NWE)

## Contemplating Prospects & Evolving COVID Crisis

With their latest AGA update, NWE reaffirmed their recently revised 2020 guidance of \$3.30-\$3.45, but didn't provide any additional color around the latest weeks of load data. As previously noted, guidance assumes flat gross margin growth through the remainder of the year at the midpoint and we continue to watch any decoupling developments after the MT commission recently denied the intervenor motion for reconsideration (around the potential ROE reduction for NWE if decoupling is implemented). While decoupling for NWE was initially contemplated for July, the MT commission plans on opening another docket to explore impacts of implementation during the pandemic and latest discussions suggested postponement would be beneficial given 90% relates to resi load (which has seen an uptick as expected given latest lockdowns across the nation). As such, we perceive NWE as likely to advocate for postponing any action around the mechanism into 2021 (a presumably more normalized baseline) despite a clear cut desire to implement in LT (not just in a five year pilot). Nuances & timeline to implementation remain critical both in the near term and longer term in MT.

We stress another nuance to watch is bad debt in particular given management's assumption of recovery in the latest guidance - albeit we continue to perceive a constructive backdrop in both SD and MT. The company has filed a joint expense recovery filing in SD with plans to file soon in MT.

## Rate Cases & LT Gen: Awaiting MT RFP Bids

While the company doesn't plan to file any rate cases this year, discussions suggested they will continue to evaluate every April - and we don't perceive any firm decisions as having been made regarding a potential filing for next year. That said, given the capital spent and investment underway in SD with the latest generation win (and known and measurable gen spend into '21), we see a SD filing as more likely than not - and ultimately view a constructive backdrop for the state. We would expect MT filings to be more challenging on the margin given the aggressive cost cuts underway in '20 - as well as the likely ROE environment (with outstanding FERC uncertainty even as potentially weighing on state returns). All that said, we perceive bias towards a MT generation filing as opposed to a full rate case if the company is able to be successful with any generation bids in the state. Following an extension of the timeline, initial RFP bids are now due in July and we perceive confidence around maintaining the schedule and turning things around in a reasonable amount of time. Preapproval of a project could help mitigate impact in pushing out a rate case to '22.

Meanwhile, the company continues to work through potential approval to acquire additional Colstrip that would reduce their generation needs in MT and are hopeful to have clarity by the end of the year if ultimately approved. The company earlier notified the MT PSC that Talen Energy has purported to exercise its right under the Colstrip Ownership and Operation agreement to acquire a portion of the transaction that was negotiated between Puget Sound Energy and NWE for the proposed sale of the 185MW of Colstrip Unit 4. If Talen purchases a portion of the Puget Unit 4 interest, NWE would acquire at least half of Puget Sound Energy's interest equating to 92.5MW with a purchase price of \$0.50, with the PPA with Puget Sound shifting to 45MW (from 90 initially contemplated) for five years. With any approval and potential close expected to play out by the end of the year, we continue to see rejection of the add'l Colstrip as best case scenario as meaningful generation spend and rate base is critical to driving longer term EPS growth.

We maintain our Underperform rating, seeing NT risk to the revised '20 guide under a protracted crisis and a lack of LT growth without meaningful generation.



## Sempra Energy (SRE)

*We maintain our Neutral rating as we continue to see shares as fairly valued given average implied upside as well as the uncertainty in LNG development given the market backdrop and limited recent developments after 1Q call as we await ECA FID (and financing disclosures). However, we stress SRE is one of few peers to have reaffirmed '20 guide at the top-end and provided visibility into '21 in the wake of COVID with potential upside at the CA utilities with clear bias to earn at more robust historical earned ROE levels. Confidence in TX also remains notable as incremental capex depends on interconnect approvals rather than the base plan despite the oil patch woes.*

*While IEnova concentration continues, mgmt. stresses that majority of \$1bn growth capital can be deferred while confidence in counterparty contracts given continued payment and fixed/pass-through rates. Deferral of segment capex remains a unique risk. Further, we continue to see an equity issuance as unlikely as management prioritizes shareholders over a potential credit downgrade at Moody's (currently on downgrade review). Note SRE targets 16% FFO/debt in 2020 vs the 17% Moody's downgrade threshold; see Fitch/S&Ps outlook as critical given likely foregone conclusion at Moody's. Bottom line, while we see potential upside to the utility outlook, LNG uncertainty continues to linger with both the credit outlook (sending mixed messages to LNG counterparties?) and lack of tangible data points beyond ECA phase 1.*

*On balance we see upside to our ests consistent with management commentary on its 1Q call. That said, we suspect investors in SRE largely under-appreciate the consternation at IEnova emerging in recent months.*

### California returning to a premium regulatory environment?

With recent constructive rate cases, we perceive confidence in mgmt.'s ability to earn closer to its historical earned ROEs. SRE has a history of earning strong ROEs relative to its authorized rates – see our report: [Sempra Energy: Focus on the Utility: Raising expectations on \(adamant\) continued mgmt. confidence 06 February 2020](#). We continue to believe our estimates could very well see an improving trend through the forecast period. Sempra continues to allocate a significant amount of capital towards safety and reliability (80%+ of 5-yr capex relates to safety and reliability), and the company got nearly everything it asked for in the last general rate case under RAMP (risk mitigation phase). Bottom line, we perceive SRE's CA jurisdiction to be the most well positioned given the healthy ROE outlook and upside to spending initiatives to further align with state policy (wildfire mitigation/de-carbonization).

### Balance Sheet: equity continues to seem unlikely with Moody's action likely

We continue to see FFO/Debt achieving the 16% threshold by YE2020, which compares to Moody's 17% threshold to maintain its BBB+ rating. With the addition of ECA LNG and management's commitment to its shareholders (i.e. no equity), we believe it will be difficult for SRE to maintain its BBB+ rating at Moody's. However, we expect the other agencies to grant more latitude to SRE with the Port Arthur FID pushed to 2021 as of the 1Q call, which gives the company more time to improve its metrics. We continue to see FFO/debt at 17% in 2022. Given ECA phase 1 could still move forward with the current threshold and Port Arthur would be project financed for 2-3yrs (with equity likely needed in year 3) we see no equity needs through the forecast period. Hence, we see a downgrade at Moody's as likely inevitable given commitment to no equity and company target of 16% FFO/Debt in 2020, but not at the other agencies that will likely allow SRE more leeway.

### Texas: mgmt. still feels good about current capex plan

Management was clear it remains confident regarding the current capex plan at Oncor in the face of COVID and blatant exposure to the apex of the oil downturn in West Texas. The company does not expect an update to the Oncor capex program until its annual meeting in October, where the company will refresh the 5-year capital program as it





typically does each year. While management is cognizant of the steep decline in activity in the oil patch, it noted three areas offset to this, which include 1) Dallas Ft. Worth being one of the fast growing metropolitan areas in the country with 18k hookups in 1Q alone, 2) >100 GW of renewable generation in the queue in Texas, and 3) marginal producers in the Permian demand for converting diesel generation (30c/KW) to lower cost natural gas. On top of those three areas, management sees up to \$750mn of ongoing capex deployment and has 13 renewable interconnects in the queue that are not in the base plan (i.e. incremental). *Despite clear risk of renewable project delays, management appears to feel confident a future roll forward could be at least as constructive as its latest update from late 2019. This was surprising in our view.*

#### **INova: deferring of growth capital but not a material concern**

At INova, mgmt. highlighted that its counterparty contracts continue to pay with over 50% backed by government entities (PEMEX, etc) with fixed rates/past through transmission costs. Despite confidence in navigating the regulatory climate, consternation persists following recent dynamics with the President and avoidance of subsidizing private industry. That said, mgmt. acknowledged that growth capital of \$1bn+ associated with fuel terminals are likely to be deferred as the company looks to align with counterparty timing (BP, Valero, etc.). While majority of contracted EBITDA comes from ECA imports and pipelines with total income from the Mexican unit roughly 10-15% of SRE consolidated, we continue to monitor developments with the government bodies as it pertains to both ECA phase 1 approval and ability to execute on growth capex. See our colleagues note on INova for more.

#### **Reiterate LNG update from 1Q call**

Management had no change in messaging on the LNG front during its AGA update noting confidence in the future of the LNG business. The company emphasized its discipline where it looks for LNG returns well in excess of those at the utilities to justify the investments. SRE expects a Final Investment Decision (FID) on ECA LNG phase 1 this quarter (2Q20) subject to receiving an export permit. Once the project is sanctioned, the company plans to announce the financing terms. SRE noted it is reasonable to expect some of INova construction capital will be deferred from 2020 to 2021 due to COVID-related pressures. We perceive the delay on logistics/terminals given lower liquids makes room in capex budget for ECA related spend. We expect SRE likely sells down some of its ownership stake to counter parties, adding some latitude to the balance sheet. Recall, as of the 1Q call, SRE secured the sale of two 20-year Supply Purchase Agreements (SPA) with Total and Mitsui for a total of 2.5Mtpa from ECA LNG phase 1. Further, the Port Arthur FID is still expected in 2021 (previously expected in 3Q20 ahead of COVID). On Cameron LNG Phase 2, MOU negotiations will likely take some time to turn into Sale and Purchase Agreements (SPAs) given the uncertain market environment. Net net, we continue to be cautious on LNG growth given the current market backdrop, but see this reiterated update as a moderate positive under the current circumstances of the market.

#### **Incremental capex upside via RNG, hydrogen, DG, and mobile home parks**

Despite an already robust 5-yr capex plan (\$32bn 2020-2024), Sempra identified that the company has incremental upside to capex via 1) Renewable Natural Gas (RNG), 2) hydrogen, 3) distributed generation (DG), and 4) mobile home park upgrade programs. Recall, SoCalGas committed to replacing 20% of its traditional natural gas supply with RNG by 2030. We would note Sempra continues to be very focused on distributed generation, particularly in fuel cells, which could help supplement public safety power shutoffs (PSPS) especially for more isolated communities. These initiatives all provide upside to capex at the utilities over the next five years that is not baked into guidance. While we do not currently model these several items into our capex, it could drive eventual bias to positive estimate revisions.

## Southern Company (SO)

*We sensed an overall confident tone from mgmt. during our meetings on ability to sustain both cost cuts into the future (potentially 2/3 of upper end of \$400mn range) and execution on Vogtle w/ improvements in absenteeism and focus on upcoming Cold Hydro testing in the June/July timeframe. Meanwhile, mgmt. remains confident in the ability to overcome increased arrears/bad debt expense both from an EPS and cash flow impact. Aside from ability to defer costs in GA/MS (and annual filings in AL and gas LDCs insulated), the utilization of CARES Act loans for commercial and low income customers (loans forgiven as long as utility bills are paid) should help to alleviate cash flow impact. While we still see workforce reduction transition as important to monitor as well as remaining cost contingency relative to percentage to complete (w/ utilization of contingency a good barometer to monitor in terms of execution on costs), focus on upcoming testing data points remain critical to the SO story as start of Unit 3's Cold Hydro testing and execution will indicate if SO can turn the switch on. Net-net maintain Neutral rating given critical execution ahead.*

### **Vogtle execution: watching productivity as Cold Hydro the next key inflection**

Following reaffirmation of the aggressive schedule for Unit 3 (May '21) and regulatory in-service date and costs for both units (albeit pushed the aggressive schedule for Unit 4 back to its original May '22 date), commentary during our AGA call suggested no material updates although it has seen a noticeable improvement in absenteeism after reduction in workforce (to 7k from 9k). While we still see workforce reduction transition as important and remaining cost contingency relative to percentage to complete (w/ utilization of contingency a good barometer in terms of execution on costs) as critical to monitor, execution on upcoming testing items remain the most critical inflection point to the story. To that end, we look to Unit 3 start of conducting Cold Hydro testing in the June to July 2020 timeframe, although mgmt. continues to highlight that it has headroom in its plan so that Cold Hydro doesn't need to be done until Sept. to meet the Nov. 21 deadline. *Bottom line, execution at Vogtle for the remainder of 2020 will be critical to the SO story, and we will be keen to hear an update on the next data point in June/July with regard to the start of Unit 3's Cold Hydro testing.*

### **Examining cost savings and sustainability through outlook**

With expectations for load to be down 2-5% for FY20 (\$250-400mn impact in base revenues), mgmt. has been broadly confident that focus on O&M reductions would offset the substantial majority of load declines. During our discussions, mgmt. further opined on the ability to sustain these cost reductions more indefinitely, suggesting that nearly 2/3rds of its targeted range could be sustained (hiring freeze and new work from home capabilities) while 1/3<sup>rd</sup> are likely to be a headwind in future periods as there can only be a delay in items such as vegetation mgmt. for a period of time. While we perceive ability to maintain '20 guide (at least conceptually) as a positive given pervasive concerns of EPS guidance reductions across the space through focus on cost reductions, the broader commitment to '20 rather than explicit reaffirm is similar to that of CMS and is a tad cautious. That said, mgmt. highlighted a review of headcount reductions at the end of the year if the duration of COVID latest longer than expected as the most obvious upside angle to increased cost savings; albeit we perceive this as potentially the least palatable with regulators given the importance of maintaining jobs.

### **Watching bad debt expense w/ COVID; CARES Act all the more relevant**

SO's gas utilities already have riders and trackers in place that help recover most of their bad debt expenses, but its electric utilities do not. This leaves the electric utilities more exposed to bad debt expense due to COVID. However, similar to a number of other states, both the Georgia and Mississippi commissions have announced orders to implement regulatory assets that will allow recovery for COVID-related cost. In Alabama, there is already a bad debt recovery mechanism within the Rate Stabilization and Equalization (RSE) mechanism. Mgmt. has highlighted that it has yet to see a material increase in arrears payments, although has ample liquidity (\$7bn) to withstand a 40% of



customers in arrears (\$1bn impact per quarter vs 15% modeled expectations). Aside from ability to defer costs in GA/MS, the utilization of CARES Act loans for commercial and low income customers (loans forgiven as long as utility bills are paid) should help to alleviate cash flow impacts. While we believe SO will ultimately be able to recover most of its bad debt expenses associated with COVID, the timing of this recovery presents uncertainty and further negative revision risk to near-term estimates.

**Southern Power: No major impacts from COVID given profile**

The vast majority of growth is expected to come from the current wind assets in its portfolio and Hypothetical Liquidation at Book Value (HBVL) accounting as the company did tax equity financing on those assets to further enable growth at the 5% clip. Mgmt. highlighted that even if it stopped investing today it could maintain the 5% growth through the plan period, although remains optimistic around potential upside with \$500mn/yr in investments in the outer years of the plan; mgmt. highlighted it has seen some battery opportunities in CA this year. Further, with contracts for gas plants (CTs and CCTGs) based on capacity payments and renewables on take or pay contracts; it does not expect to see any degradation in the revenue stream due to COVID.

Elsewhere, mgmt. remains committed to its Gas LDC business, although continues to see challenges with midstream given the difficulty in rectifying permits (pervasive throughout the space).



## WEC Energy Group (WEC)

*Our discussions with mgmt. largely focused on the outlook for 2020 in the wake of Covid, with management continuing to emphasize early stages in terms of visibility on demand for the remainder of the year while stressing confidence in its ability to manage O&M expense; long-term mgmt. stresses that the pipeline of large industrials coming to Wisconsin remains intact with a recent addition of a large ship builder to the other high-profile projects previously announced.. Renewable updates were limited other than the previously communicated update on Badger Hollow 1 which has been pushed back by several months in an effort to manage the onsite workforce. Company mgmt. acknowledged being linked to Bloomberg News reports on a possible M&A transaction but declined to comment on the story. Mgmt had earlier talked down M&A on its call seeing few opportunities to find accretive prospects that would meet its 5-7% EPS growth. We continue to maintain our Underperform rating.*

### **Early days in state reopening, but cost cutting remains key lever**

WEC mgmt. reiterated its confidence in being able to manage O&M such that higher expenses and lost sales linked with the shut down orders during the Covid pandemic are expected to be offset. Among tailwinds cited was a lower level of maintenance required by leaks in the gas distribution system given the warmer than average winter. We continue to see cost cuts over and above mgmt.'s initial guidance range of 2-3% of day to day O&M as key to achieving the 2002 EPS guidance range of \$3.771-3.75. Mgmt. noted that the reopening of business in the state of Wisconsin has been moved ahead of schedule previously laid out by the governor which initially lifted the stay at home order in late May with a phased reopening of some businesses including bars and restaurants in the middle part of the month. Recall that the company provided an updated forecast for electric sales with its Q1 reporting – now assuming small C&I sales declining by 4.6% and large C&I sales declining by 10.5% - mgmt. did not indicate that the forecast has shifted following the early suspension of stay at home orders following a state court ruling in early May.

### **Generation updates: modest delays in renewables, additional detail on Riverside**

Badger Hollow 1 remains the one renewable project with notable delays – following a recent decision to push back construction the project is now expected to be in service in Apr/May 2021 after initially targeting an in service date of year-end 2020. Mgmt. cited the need to maintain social distancing guidelines, making it difficult to mobilize a workforce of ~100+ workers in an area of the state resources for bringing in a large work crew are limited. On the non-renewables front the company is pushing forward with its LNG project which was submitted to the commission earlier in the year and is expected to come for approval later in 2020. Mgmt. provided some additional color on the option to purchase a stake from the newly operational Riverside plant – the option gives WEC the opportunity to purchase a stake in the unit over a four year period; additionally WEC and LNT have the option to co-invest in new utility-scale projects being developed by either party – mgmt. flags the second option as advantageous given the availability of locations available for siting new renewables. Overall, the company expects to maintain adequate reserve margins for the foreseeable future given its ongoing renewables buildup and the retirement of 1800 MW of coal generation assets over the past several years.

### **Large industrials keep plans intact, ship builder plans to build**

Importantly, the *long-term industrial sales forecast is intact* with mgmt. still expecting large-scale industrial projects from Foxconn, Amazon, Milwaukee Tools, and others to come online as currently forecast with no expectation of altered plans in the state. As a positive data point mgmt. flagged Marinette Marine as a new large-scale project coming online in the Green Bay area as an addition to the industrial pipeline. Bottom line: mgmt. indicated that given the current line of sight the capital plan remains intact as growth in the state continues to be supported by large-scale industrial projects, with an expected updated capex plan coming in the fall in line with the company's normal update schedule.



**Stocks mentioned**

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US\$ 72.23	A-1-7
AGR	AGR US	Avangrid	US\$ 41	A-2-7
CNP	CNP US	CenterPoint Energy	US\$ 17.49	B-3-7
ED	ED US	Consolidated Edison	US\$ 73.11	A-1-7
DUK	DUK US	Duke Energy	US\$ 84.92	A-2-7
WTRG	WTRG US	Essential Utilities	US\$ 41.23	B-2-7
SRE	SRE US	Sempra Energy	US\$ 124	A-2-7
SO	SO US	Southern Company	US\$ 54.42	A-2-7
WEC	WEC US	WEC Energy Group Inc	US\$ 87.62	A-3-7

Source: BofA Global Research

## Price objective basis & risk

### Ameren Corporation (AEE)

Our \$75 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2022E ratebase weighted peer multiple of 15.8x for electric. We apply a 2.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 3.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 0x premium to peers to reflect the latest potential step down in FERC ROEs. At the Parent, we assume an in line multiple given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

The upside (downside) risks to our price objective are the utilities earning their allowed returns or better (worse), a significant increase (decrease) in 30-year U.S. Treasury bond yields, and positive (adverse) regulatory outcomes that could impact mgmt's ability to earn its allowed return

### Avangrid (AGR)

Our PO of \$47 is based on an SOTP. The utilities are valued on a 2022E with a 1x disc to the electric peer P/E of 17.2x and 17.8x on the gas, given perceived risk to earned ROEs. Both electric and gas peer P/Es are grossed up to 2020 by 5-5.1% to reflect capital appreciation across the sector. We apply a 10X 2022E EBITDA multiple on the renewables sales earnings but strip out the tax credits/hedge value and apply a DCF (8%, no terminal) and an 8x EBITDA multiple for the small thermal assets (both based on comps). We back out 50% of the non-reg debt at the parent also. We include the value of the two offshore wind awards assuming \$3500/kW cost, 6% disc, and 6% construction risk disc. We use an in-line discount for CMP's NECEC transmission project, but probability weight it 40% (broken out as well).

Upside risks: 1) ROE improvement in AGR's network business 2) Improvement in wind resources net capacity factor 3) higher than expected growth from offshore wind opp's.

Downside risks: 1) Iberdrola controls over 80% of AGR, limiting liquidity and exerting control over AGR's activities 2) Reg. relationships/outcomes could deteriorate 3) Existing and likely increasing exposure to the renewables biz results in a number of PPA related risks including commodity, recontracting & tax benefit recovery risk 4) Lack of adequate capital recovery mechanisms could threaten ROE's 5) The renewables biz may not expand as fast as expected or have worse returns 6) Offshore delays.



**CenterPoint Energy (CNP)**

We value CenterPoint Energy at \$18 using a SOTP approach: electric business on an in-line utility multiple of 16.5x on 2022E P/E. We take out any earnings attributable to the transition bonds amortization, as those are temporary and instead add back the DCF value of future payments. For CNP's gas utilities we use an in-line utility gas peer multiple of 16.5x. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We integrate Vectren into our model and apply a 60/40% weighting to the gas/electric multiple. For VESCO we apply a 12x P/E multiple. We subtract parent interest expenses at a weighted average multiple. Further we net out the perpetual preferred, and apply a 50/50 weighting to parent debt and add back interest expense for recapitalization. We add CNP's interest in ENBL at the market value. We net out holdco interest at the weighted average P/E.

Downside risks: execution risk, decreases in capex which could support or weaken earnings ability, lower authorized returns, interest rate increases, and lower earnings from ENBL.

Upside risks: increase in capex, higher authorized returns, interest rate increase, better performance from the midstream biz.

**Consolidated Edison (ED)**

Our \$85 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples (16.0x/16.5x for electric/gas respectively) with a 1.0x premium on gas and electric to reflect decoupling, and a -1.0x discount on steam to reflect volume exposure. We note that both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We applied inline peer regulated multiple at CECONY despite its rate certainty for conservatism as our higher capex expectations are reflected in our EPS outlook. We apply a discounted PE for infrastructure projects given the lack of clarity around the capital structure. We further apply an EV/EBITDA approach on 2022E EBITDA to the CEB business using a 10.0x multiple for both the legacy portfolio and the renewables portfolio seeing it as having higher quality returns.

Downside risks: ED, like all utility stocks, is also sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to recontract storage, adverse regulatory outcomes, a deteriorating regulatory environment, or unforeseen disasters such as the Harlem gas explosion. Customer inflation is also a downside risk. PCG related counterparty exposure has abated as a source of risk but remains worth monitoring.

**Duke Energy (DUK)**

Our \$83 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2022E P/E multiples. We apply a 1.0x multiple premium to Duke's operations in FL/IN to reflect more favorable regulatory environments. We apply an in-line multiple to the Carolinas given risk ahead. We value the other regulated electric utilities at 15.8x and the gas utilities at peer group multiples of 16.3x 2022E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2022E EV/EBITDA basis. We use a 9.0x multiple for midstream and transmission segment, although we assume a 50% weighting for ACP given risks to completion. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, ACP ahead of schedule, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, ACP delays. Macro risks: Increases in interest rates and decreases in equity market valuations.





**Essential Utilities (WTRG)**

Our price objective is \$47 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. We apply a 2.0x premium to Peoples Gas given the organic growth opportunities. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

Risks to the upside include upward revisions to street estimates and further accretion from implementation of the Repairs Tax Benefit.

**Sempra Energy (SRE)**

Our \$127 PO is based on a SOTP valuation based on 2022E net income. We apply a 1x discounted multiple to SDG&E and no premium multiple to SoCal Gas earnings (vs peer multiples of 16.3x and 17.1x, respectively). We use an in-line multiple for TX utility business given uncertain regulatory outlook despite T&D upside. For the LatAm business we value post-tax est for both sale of Peru & Chilean utilities. We value Cameron using a DCF at a 10.0% dis using a CAPM approach off its adjusted beta. We run a DCF on other LNG development and probability weight for project execution. We value the balance of the midstream segment using an EV/EBITDA approach using a 10.0x multiple as the Cameron import pipeline EBITDA doesn't step up until 2020. We further adj. for HoldCo debt & parent drag.

Downside risks: 1) negative reg risk from CA regulatory changes & int'l govts where SRE operates 2) incremental costs associated with Aliso canyon, 3) unanticipated cost overruns or delays for the Cameron LNG & other large organic growth projects 4) Capital markets or execution risk around the proposed Oncor transaction 5) rising rates, volatile natural gas prices & FX risks for SRE's int'l businesses Upside risks: 1) positive regulatory outcomes, 2) higher capex, 3) execution on Cameron ahead of our expectations, 4) lower interest rates.

**Southern Company (SO)**

Our \$58 PO is derived from a SOTP. We use a P/E val approach on 2023 and use peer multiples of 15.7x for electric and 16.2x for gas, respectively (with dis/prem applied per asset depending on growth/risk); we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO. We subtract the 50% of the 2022 parent interest expense multiple by an electric P/E peer multiple to reflect parent lev supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.

Upside risks are: 1) Regulatory outcomes or RO's could be better vs expectations, as exposed to multiple state jurisdictions 2) Additional riders and capital trackers can help the company achieve better than expected ROE, but failure to get riders would hurt SO 3) The nat. gas related biz are relatively new and could prove more or less able to earn an ROE in line with or different from their allowed ROE, 4) high capital forecasts and subsequent earnings streams vs our assumptions

Downside risks are: 1) Regulatory outcomes or ROE's could be worse than expectations, particularly since exposed to mult. state jurisdictions, 2) SO has exposure to Vogtle which could shift earnings, 3) Weather patterns could influence usage or natural disasters could affect system reliability 4) Utilities are subject to interest rate risk.

**WEC Energy Group Inc (WEC)**

Our \$81 PO is based on a 2022E SoTP analysis, based on the large cap electric group multiple of 16.3x and the gas regulated multiple of 16.7x. Both electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector.



We apply a 3.0x premium to WEC's WI electric & gas subs to compensate for surety in earnings growth for the next two years following the Commissions affirmation of the recent settlement on above average ROE's of 10%+. We apply a 1x premium to the gas utilities, incl IL's Peoples Gas and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 2x premium vs. the group at ATC to account for the steady nature of earnings growth as well as above average ROE's that are set at a federal level by FERC. We give Power the Future (PTF) a 2.0x premium multiple given the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. For the HoldCo adjustment to debt, we net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Upside risks are stronger than expected execution and accelerating capital oppt'y.

Downside risks are inability to achieve historical track record on cost cutting and ability to cont. to scale regulated investments given growing portion from contracted renewables.

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## North American Utilities, Alternative Energy &amp; LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>UNDERPERFORM</b>				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith



**North American Utilities, Alternative Energy & LNG Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	50.35%	Buy	51	70.83%
Hold	38	26.57%	Hold	28	73.68%
Sell	33	23.08%	Sell	24	72.73%

**Equity Investment Rating Distribution: Global Group (as of 31 Mar 2020)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	52.15%	Buy	1005	62.73%
Hold	713	23.21%	Hold	463	64.94%
Sell	757	24.64%	Sell	382	50.46%

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